

October 07, 2002



Readiness

DoD Use of the North Atlantic Treaty
Organization Maintenance and
Supply Agency
(D-2003-005)

Department of Defense
Office of the Inspector General

Quality

Integrity

Accountability

Additional Copies

To obtain additional copies of this report, visit the Web site of the Inspector General of the Department of Defense at www.dodig.osd.mil/audit/reports or contact the Secondary Reports Distribution Unit of the Audit Followup and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Audit Followup and Technical Support Directorate at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General of the Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.osd.mil; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

ACSA	Acquisition Cross-Servicing Agreement
NAMSA	North Atlantic Treaty Organization Maintenance and Supply Agency
NATO	North Atlantic Treaty Organization
USAREUR	U.S. Army, Europe
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics
WSP	Weapon System Partnership



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

October 07, 2002

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

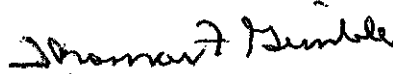
SUBJECT: Report on DoD Use of the North Atlantic Treaty Organization Maintenance and Supply Agency (Report No. D-2003-005)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary of Defense for Acquisition, Technology, and Logistics comments were partially responsive. The Army Materiel Command comments were not responsive. We request additional comments on Recommendations 1. and 2. by December 9, 2002.

If possible, please provide management comments in electronic format (Adobe Acrobat file only). Send electronic transmission to the e-mail addresses cited in the last paragraph of this memorandum. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the classified SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Evelyn R. Klemstine at (703) 604-9172 (DSN 664-9172) (eklemstine@dodig.osd.mil) or Ms. A. Dahnelle Alexander at (703) 604-9619 (DSN 664-9619) (aalexander@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.


for David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General of the Department of Defense

Report No.D-2003-005

(Project No. D2002LG-0001)

October 07, 2002

DoD Use of the North Atlantic Treaty Organization Maintenance and Supply Agency

Executive Summary

Who Should Read This Report and Why? DoD civilians and military personnel authorized to make logistics support decisions should read this report. This report discusses some of the impediments that prevent maximum use of the North Atlantic Treaty Organization (NATO) Maintenance and Supply Agency as a secondary source of maintenance.

Background. NATO created the NATO Maintenance and Supply Organization in 1958 to provide logistics services in support of weapon systems held in common by NATO nations. The NATO Maintenance and Supply Agency is the executive arm of the NATO Maintenance and Supply Organization. NATO nations have established weapon system partnership agreements through the NATO Maintenance and Supply Agency to provide support for weapon systems two or more nations hold in common. The NATO Maintenance and Supply Agency consolidates the weapon system requirements to make bulk procurements of services and supplies and to achieve economies of scale.

Results. DoD could improve its use of the NATO Maintenance and Supply Agency for combined logistics support and reduce costs. Specifically, the Army did not join the Helicopters Weapon System Partnership Agreement. In addition, the Navy did not maximize its use of a weapon system partnership agreement. As a result, the Military Departments will incur surcharges when using existing weapon system partnership agreements that the United States is not a member of. In FY 2004, the Army could incur about \$1 million in additional costs for its projected helicopter component maintenance and repair workload. Also, the Navy may experience readiness shortfalls while it awaits high-demand, depot-level repairables for the P-3 Orion requisitioned from Navy sources. In addition, the Military Departments may not realize other potential benefits from using the NATO Maintenance and Supply Agency to support their combined logistics support requirements, to include consolidated procurement of supplies, storage, and services. DoD Directive 2010.8, "Department of Defense Policy for NATO Logistics," November 12, 1986, should be revised to provide the Military Departments with documented procedures for submitting requirements and for joining and using weapon system partnership agreements so that the NATO Maintenance and Supply Agency can be used to the maximum for combined logistics support. The Army could realize potential monetary benefits by joining the Helicopters Weapon System Partnership Agreement. The Navy could reduce lead time for high-demand, depot-level repairables for the P-3 by using the C-130 Hercules/P-3 Orion Weapon System Partnership Agreement. (See the Finding section of the report for the detailed recommendations.)

Management Comments and Audit Response. The Under Secretary of Defense for Acquisition, Technology, and Logistics nonconcurred, stating that procedures are in place. The Commander, Army Materiel Command nonconcurred, stating that the Army should submit logistics requirements to the Under Secretary of Defense for Acquisition, Technology, and Logistics. The Acting Assistant Secretary of the Navy (Research, Development and Acquisition) concurred with the recommendation to use the NATO Maintenance and Supply Agency upon the establishment of procedures by the Under Secretary of Defense and when the NATO Maintenance and Supply Agency is cost-effective and does not negatively impact readiness. Although not required to comment, the Army Security Assistance Command and U.S. Army, Europe provided comments. The Chief, Country Program Management Division, Europe Directorate of the Army Security Assistance Command did not agree with our recommendation, but did agree that the decision to join the Helicopters Weapon System Partnership Agreement should be reexamined. The Chief, Internal Review and Audit Compliance Office, U.S. Army, Europe agreed with the recommendation.

Comments from the Under Secretary of Defense for Acquisition, Technology, and Logistics were partially responsive. Comments from the Army were not responsive. Although procedures exist for DoD support to NATO Maintenance and Supply Agency through the foreign military sales program, procedures for logistics support to DoD, using the NATO Maintenance and Supply Agency, need to be established. We also believe that joining the Helicopters Weapon System Partnership Agreement could be beneficial to the United States and the decision deserves to be reexamined. We request that the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Commander, Army Materiel Command reconsider their positions and provide comments on the final report by December 7, 2002. A discussion of management comments is in the Finding section of the report and the complete text is in the Management Comments section.

Table of Contents

Executive Summary	i
Background	1
Objectives	3
Other Matters of Interest	3
Finding	
DoD Use of Combined Logistics Support	5
Appendixes	
A. Scope and Methodology	16
Management Control Program Review	19
B. Prior Coverage	20
C. Weapon System Partnership Agreements	22
D. Report Distribution	23
Management Comments	
Under Secretary of Defense for Acquisition, Technology, and Logistics	25
Department of the Army	29
Department of the Navy	35

Background

Sections 2460 and 2466, title 10, United States Code (10 U.S.C.), stipulate that not more than 50 percent of the annual funding for depot maintenance that is provided to the Military Departments and Defense agencies can be used for work non-Federal employees accomplish. The Military Departments must account for depot maintenance that contractors perform. During FY 2001, DoD spent \$17.2 billion on depot-level maintenance. For FY 2001, the Army reported 45.2 percent, the Navy 45.6 percent, and the Air Force 51.9 percent of their depot maintenance workload was performed by non-Federal employees. The North Atlantic Treaty Organization (NATO) Maintenance and Supply Organization is an alternative source of repair and supply for deployed DoD forces mainly in the U.S. European Command area of responsibility and is also subject to the legal constraints of the 50-percent rule. However, the annual dollars spent on NATO Maintenance and Supply Agency (NAMSA) services are a minor fraction of the amount DoD spends each year on maintenance and repair. Therefore, the increased use by DoD of NAMSA services would have minimal to no impact on the percentage of depot maintenance performed by non-Federal employees.

NATO Maintenance and Supply Agency. NATO created the NATO Maintenance and Supply Organization in 1958 to provide logistics service in support of weapon systems NATO nations hold in common. NAMSA is the executive arm of the NATO Maintenance and Supply Organization. To make bulk procurements of services and supplies and achieve economies of scale, NAMSA consolidates the requirements of nations. NAMSA is a nonprofit NATO organization. In 2001, NAMSA reported a workforce of 905, with a contractor support base of about 10,000. The majority of the NAMSA workload was contracted through either the original equipment manufacturer or Government-approved businesses.

In 2001, NAMSA placed contracts to meet customer requirements valued at \$386 million, of which about \$120 million were placed with U.S. industries. In 2001, the United States spent \$108 million to obtain logistics support through NAMSA. The majority of NAMSA services is provided to the Military Department Components of the U.S. European Command using cooperative agreements such as Acquisition Cross-Servicing Agreements (ACSAs) and weapon system partnership (WSP) agreements. The U.S. European Command may also provide logistics support to other geographic theaters, such as the U.S. Central Command.

Acquisition Cross-Servicing Agreements. The United States may enter into an ACSA with NATO nations and organizations, or other eligible countries, for the mutual exchange of logistics support, supplies, and services when the required support is not reasonably available from U.S. commercial sources. When the United States receives support through an ACSA, the United States must reimburse the providing nation either with replacement-in-kind or equal value exchange under reciprocal pricing principles. Because specific contract requirements are waived, using an ACSA allows logistics support to be obtained easier and faster than through foreign military sales or through the Federal acquisition process. However, ACSAs are subject to an annual dollar limitation

and, therefore, must be budgeted and accounted for separately from other transactions. Through ACSA implementing arrangements, the Military Departments can obtain logistics support, supplies, and services from NAMSA.

Weapon System Partnership Agreements. NATO nations have established WSP agreements through NAMSA that provide support to weapon systems two or more nations hold in common. Those agreements are for specific weapon systems and provide for the transfer or acquisition of combined logistics support, supplies, or services. A WSP agreement includes only those nations that request participation in the logistics support mission. Each member nation has an agreed-upon cost sharing formula for administrative and operational expenditures. The cost sharing formula is unique for each WSP agreement and is based on a nation's projected use of NAMSA.¹ If a nation is not a member of a WSP agreement, but wishes to use the services provided under a WSP agreement, a surcharge is applied to each transaction. DoD supports 13 WSP agreements and is a member of 6 WSP agreements. For the 13 WSP agreements, DoD provides technical information, supplies, and services to NAMSA through the foreign military sales program. As a member of the six WSP agreements, DoD can receive logistics support, supplies, and services through NAMSA for the commonly owned weapon systems covered by the agreements. The decision making authority for the common logistics support of weapon systems will vary based on the Military Department and type of weapon system. See Appendix C for a list of NAMSA WSP agreements that DoD supports or is a member of.

Responsible Offices Within DoD. Within the Office of the Under Secretary of Defense for Policy, the Defense Advisor, U.S. Mission to NATO formulates and coordinates DoD policy in Europe. Within the Office of the Defense Advisor, the Director of the Infrastructure, Logistics and Civil Emergency Planning Division is also the U.S. member of the NAMSA Board of Directors, which oversees NAMSA operations. The Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]) implements DoD policy for NATO logistics, which includes coordinating cooperative agreements for the United States. The International Program Manager, Armaments Cooperation Atlantic Directorate, in the USD(AT&L) Office of International Cooperation, is responsible for coordinating logistics support requirements between DoD and NAMSA and is also the deputy U.S. member of the NAMSA Board of Directors. For foreign military sales, the Defense Security Cooperation Agency works with the Military Departments' security assistance staffs to coordinate their respective participation in WSP agreements.

Army. The Army provides support for 10 WSP agreements established through NAMSA. The Army is a member of the Ammunition; M-60 Tank/M-110 Self-Propelled Howitzer; Multiple Launch Rocket System; Patriot; and Tube-Launched, Optically-Tracked, Wire-Guided (TOW) Missiles WSP Agreements. The Army Materiel Command is the decision making authority for the logistics support of Army weapon systems and distributes maintenance and repair

¹Although nations are members of WSP agreements, the Military Departments that use the agreement pay the annual fee for the nation to be a member. The annual membership fee can also be shared, thus reducing the cost to each Military Department.

workload among its components based on current and out-year projections. The Army Aviation and Missile Command is responsible for projecting aviation and missile component workload requirements.

Navy. The Navy provides support for one WSP agreement established through NAMSAs. The Navy is not a member of any WSP agreements. The Naval Air Systems Command is the decision making authority for the logistics support of Navy aviation weapon systems. The Naval Inventory Control Point Philadelphia is responsible for managing the component repair workload.

Air Force. The Air Force provides support for two WSP agreements established through NAMSAs. The Air Force is a member of the C-130 Hercules/P-3 Orion WSP Agreement. The Air Force Materiel Command is responsible for logistics support for Air Force weapon systems. The Air Force Materiel Command provides logistics support through its air logistics centers. The decision making authority for logistics follow-on support for the C-130 aircraft is Warner Robins Air Logistics Center.

Objectives

Our overall objective was to evaluate the DoD role in supporting NAMSAs. Specifically, we determined whether DoD provided adequate oversight of WSP agreements; determined whether DoD ensured that sensitive data was protected; evaluated the process DoD used to allocate funds to NAMSAs; reviewed DoD procurement practices as they applied to NAMSAs; and reviewed DoD processes used to determine which systems or equipment would be supported through NAMSAs. We also reviewed the management control program as it applied to the audit objectives. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program. See Appendix B for prior coverage.

Other Matters of Interest

During the survey phase of our audit, we determined that the USD(AT&L) Office of International Cooperation, Armaments Cooperation Atlantic Directorate, had provided adequate oversight of the development of WSP agreements that DoD supports through the foreign military sales program. In addition, we determined that DoD had ensured that sensitive data provided through foreign military sales was protected from unauthorized disclosure by reviewing the Military Departments' foreign military sales cases for WSP agreements. We did not perform additional work in those areas during the audit phase.

We also evaluated the processes DoD used to allocate funds to NAMSAs. We determined that the Military Departments used different processes to fund WSP agreement transactions. The Army issued NATO standard agreement forms to obligate funds to NAMSAs. The Navy and the Air Force issued military interdepartmental purchase requests directly to NAMSAs, a non-DoD organization, to obligate funds. Although the Military Departments used different

processes, representatives from the offices of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Defense Finance and Accounting Service stated that the prevailing guidance is silent on issuing military interdepartmental purchase requests to non-DoD organizations and the action had no negative impact.

DoD Use of Combined Logistics Support

DoD could improve its use of NAMSAs for combined logistics support and reduce costs. Specifically, the Army, which has 308 helicopters in the European theater, did not join the Helicopters WSP Agreement and the Navy did not maximize its use of the C-130 Hercules/P-3 Orion WSP Agreement. DoD did not maximize use of NAMSAs for combined logistics support because USD(AT&L) did not develop procedures:

- for the Military Departments to submit common weapon system requirements to DoD for consideration of logistics support through a WSP agreement,
- to coordinate and submit other common DoD requirements for consideration of NAMSAs as a viable alternative source of repair for combined logistics support, and
- to join and use a WSP agreement.

As a result, the Military Departments will incur surcharges when using existing WSP agreements that the United States is not a member of. In FY 2004, the Army could incur about \$1 million in additional costs for its projected helicopter component maintenance and repair workload. Also, the Navy may experience readiness shortfalls while it awaits high-demand, depot-level repairables for the P-3 Orion requisitioned from Navy sources. In addition, the Military Departments may not realize other potential benefits from using NAMSAs for their combined logistics support requirements, to include consolidated procurement of supplies, storage, and services.

Cooperative Agreements

Chapter 138, "Cooperative Agreements with NATO Allies and other Countries," of 10 U.S.C., contains two subchapters: "Acquisition Cross-Servicing Agreements" and "Other Cooperative Agreements," such as a WSP agreement. Cooperative agreements are used to acquire or transfer logistics support, supplies, and services to the armed forces deployed outside the United States. The legislative authority, however, for ACSAs and WSP agreements is separate and distinct. To implement the legislation, DoD developed DoD Directive 2010.8, "Department of Defense Policy for NATO Logistics," November 12, 1986, and DoD Directive 2010.9, "Mutual Logistic Support Between the United States and Governments of Eligible Countries and NATO Subsidiary Bodies," September 30, 1988.

Acquisition Cross-Servicing Agreements. Chapter 138, subchapter I, "Acquisition Cross-Servicing Agreements," sections 2341 through 2350 of 10 U.S.C. authorize the United States to provide--in return for the reciprocal provisions of logistics support, supplies, and services--mutual logistics support, supplies, and services to military forces of a country or organization. Under that

authority, certain restrictions are waived, including the requirement for competition. However, an ACSA may not be used to procure goods or services reasonably available from U.S. commercial sources. In addition, except during periods of hostilities, the United States may not exceed \$200 million in reimbursable liabilities for any one fiscal year.

Weapon System Partnership Agreements. Chapter 138, subchapter II, “Other Cooperative Agreements,” section 2350d, 10 U.S.C., states that the Secretary of Defense may enter into WSP agreements with governments of other NATO countries participating in the NATO Maintenance and Supply Organization. The purpose of a WSP agreement is to provide combined logistics support for commonly owned weapon systems for participating nations. Section 2350d also states that the Secretary of Defense may agree that the NATO Maintenance and Supply Organization contract for the supply and logistics support the United States requires. WSP agreements are not subject to the same restrictions as ACSAs, such as a reimbursement ceiling or acquiring goods and services reasonably available from U.S. commercial sources. The authority is in addition to, and not under, the authority of subchapter I.

NATO Logistics. USD(AT&L) is the proponent for DoD Directive 2010.8 and DoD Directive 2010.9. DoD Directive 2010.8 provides policy for both mutual logistics support and combined logistics support. Mutual logistics support includes supply support arrangements, host nation support, and ACSAs. Combined logistics support includes NATO-managed activities, such as WSP agreements, and nationally managed activities, such as depots. The policy states that the United States shall rely maximally on combined NATO logistics support arrangements where practicable, unless doing so would be disadvantageous to the United States. Further, when the United States and other NATO allies field the same weapon system, the policy directs that the United States join with allies in a NATO Maintenance and Supply Organization WSP agreement for combined logistics support in Europe, for those functions that are practicable, unless such an agreement would be disadvantageous to the U.S. Government. The Directive requires that the USD(AT&L) establish objectives and initiatives to implement the policy. DoD must also consider using NAMSAs for storage, services, and consolidated procurement of selected items.

DoD Directive 2010.9 implements chapter 138, subchapter I of 10 U.S.C. and provides the authority to negotiate and conclude ACSAs and ACSA implementing arrangements. The policy emphasizes that mutual logistics support agreements shall not be used to procure, as a routine or normal source, those goods and services reasonably available from U.S. commercial sources. The policy requires that the Military Departments document the acquisition or transfer of logistics support, supplies, and services because those transactions are subject to reciprocation and require reimbursement or replacement in kind.

Maximizing the Use of WSP Agreements

DoD could improve its use of NAMSAs for combined logistics support and reduce costs. Specifically, the Army, which has 308 helicopters in the European theater,

did not join the Helicopters WSP Agreement and the Navy did not maximize its use of the C-130 Hercules/P-3 Orion WSP Agreement. DoD Directive 2010.8 states that when the United States and other NATO allies field the same weapon system, the United States shall join with those allies in a NATO Maintenance and Supply Organization WSP agreement for combined logistics support, for those functions that are practicable, unless disadvantageous to the U.S. Government. The policy also states that the United States shall maximally rely on the arrangements for NATO combined logistics support.

Helicopters Weapon System Partnership Agreement. The Army, which has 308 helicopters in the European theater, did not join the Helicopters WSP Agreement. Member nations for the Helicopters WSP Agreement include Germany, Italy, Spain, Turkey, and the United Kingdom. WSP agreements are designed to provide time and cost savings through consolidated procurement not otherwise possible by individual nations and to provide greater contract flexibility. The Helicopters WSP Agreement provides maintenance, repair, and supply for helicopters that participating nations use. Among the helicopters supported by the WSP agreement are the AH-64 Apache, UH-60 Blackhawk, SH-60 Sea Hawk, and CH-47 Chinook. Instead of joining the Helicopters WSP Agreement in FY 2002, the Army used an ACSA implementing arrangement between U.S. Army, Europe (USAREUR) and NAMSA to perform helicopter component repairs to meet temporary shortages in the Army supply system.² The FY 2002 component repair work provided to NAMSA included the cold section of the T700 engine for Blackhawk helicopters, which requires depot-level repair capability. USAREUR is not authorized to perform depot-level repair and would normally send components back to the United States for that work.

The Army Aviation and Missile Command provided USAREUR with the FY 2003 projected workload and requested that USAREUR use the FY 2003 workload to determine whether the new depot maintenance overhaul standards required for FY 2004 could be met in theater. The Army Aviation and Missile Command used the projected FY 2003 workload to identify existing capabilities and capacities within USAREUR to meet worldwide demands. The FY 2003 and FY 2004 workloads the Army Aviation and Missile Command projected included depot-level component repair requirements beyond the maintenance capability of USAREUR. Based on those projections, USAREUR provided NAMSA an estimated workload of 604 components (23 cold section engine components for FY 2002 and an estimated annual workload of 581 component repairables for FY 2004) that will require some depot-level repair. Although USAREUR requested NAMSA to provide an estimate for the projected FY 2004 workload, the FY 2003 workload³ was used to project the FY 2004 workload. The 581 component repairables include the gas turbine section of the T700 series helicopter engine as well as helicopter main rotor and rotary blades. After coordination with NAMSA, USAREUR provided the Army Aviation and Missile Command with a written proposal to meet the projected workload. USAREUR identified NAMSA as the proposed source of contractor repair that could be

²ACSAs, which have a \$200 million ceiling, are not to be used for routine requirements.

³As of June 2002, the Army Materiel Command had not approved the FY 2003 workload requirements.

certified to perform depot-level maintenance on the 581 component repairables that are beyond the USAREUR maintenance capability. In addition to the 308 Army helicopters, the Navy had 10 helicopters and the Air Force had 8 helicopters in theater. As of June 2002, DoD had not joined the Helicopters WSP Agreement.

C-130 Hercules/P-3 Orion Weapon System Partnership Agreement. The Navy did not maximize its use of the C-130 Hercules/P-3 Orion WSP Agreement. Member nations of the C-130 Hercules/P-3 Orion WSP Agreement are Belgium, Canada, Greece, Italy, Norway, Spain, the United Kingdom, and the United States. In 2001, the WSP agreement could have provided about 151 member nation aircraft with supply and repair logistics support, including depot-level maintenance. The Air Force paid an annual fee of \$96,376⁴ for the United States to be a member of the WSP agreement. The membership provides the Air Force with an alternative source of repair for unscheduled depot-level maintenance for 19 C-130 Hercules aircraft stationed and other C-130 Hercules aircraft operating in the European theater. The Air Force also used the WSP agreement for structural repair work on the C-130 Hercules aircraft. Because the United States is a member of the C-130 Hercules/P-3 Orion WSP Agreement, the Navy was able to use the agreement as a member. However, as of June 2002, the Navy had not shared the annual fee with the Air Force or maximized its use of the C-130 Hercules/P-3 Orion WSP Agreement.

The Navy has 16 P-3 Orion aircraft stationed in the European theater. To support those aircraft, the Navy generally sends engine components that require depot-level repair to Navy depot facilities in the United States for maintenance. The Navy depots repair the components and return them to the Navy wholesale supply system. Replacement components are shipped to the European theater based on worldwide priority levels; the European-based aircraft may not receive replacement components until higher priority requisitions have been filled. Naval Air Station Sigonella, Italy, performed a proof of concept evaluation for using NAMSAs as an alternative source of repair for P-3 Orion engine components in the European theater. Naval Air Station Sigonella identified the potential for time and cost benefits of having six items repaired using a NAMSAs contractor. However, full benefits were not realized because of complications within the contractor source approval process. From June 2000 through June 2001, Naval Air Station Sigonella shipped 44 of the same P-3 Orion engine components to Navy sources in the United States rather than using the NAMSAs contractor. The Navy subsequently certified the contractor as a Navy source of repair for nine engine components contingent upon the contractor's incorporation of additional requirements.

Procedures for Combined Logistics Support

The USD(AT&L) did not develop procedures that would implement DoD Directive 2010.8 for combined logistics support. Specifically, the USD(AT&L)

⁴Annual fee paid for 2001. Membership fees are determined annually based on the projected workload of each member.

did not develop procedures for the Military Departments to submit common weapon system requirements to DoD for consideration of logistics support through a WSP agreement; to coordinate and submit other common DoD requirements for consideration of NAMSAs as a viable alternative source of repair for combined logistics support; and to join and use WSP agreements governed by chapter 138, subchapter II, section 2350d of 10 U.S.C.

Submission of Requirements. The USD(AT&L) did not establish procedures for the Military Departments to coordinate and submit common weapon system requirements for consideration of logistics support through NAMSAs. DoD Directive 2010.8 states that the United States shall rely maximally on NATO combined logistics support arrangements, for those functions that are practicable, unless such an agreement would be disadvantageous to the U.S. Government. NAMSAs could provide support for Navy F/A-18 aircraft and Air Force F-16 aircraft. Those weapon systems are common among other NATO nations, but no WSP agreement existed for them. DoD Directive 2010.8 also states that DoD shall consider using the NATO Maintenance and Supply Organization for storage, services, and consolidated procurement of selected items. NAMSAs operate an automated system that consolidates the requirements of nations to make bulk procurements to achieve economies of scale. The Military Departments could use NAMSAs as an alternative source to locate and procure long leadtime or obsolete repair parts unavailable through the DoD wholesale supply system. The development of procedures would facilitate the Military Departments' identification and coordination of common DoD requirements to maximally use other combined logistics support arrangements and may improve readiness by providing visibility of components outside the DoD supply system. The USD(AT&L) should be the focal point for coordinating common DoD requirements.

DoD Directive 2010.8 assigns the USD(AT&L) with the responsibility of developing initiatives that implement the policy and requires the Military Departments to incorporate the policy in the planning and programming for logistics support of deployed U.S. forces. However, Military Departments did not have the guidance necessary to implement the policy. Army and Navy personnel responsible for helicopter and P-3 Orion weapon system logistics support did not know how to submit requirements for consideration of support through a WSP agreement. Also, Navy personnel were unaware of the role of the USD(AT&L) Office of International Cooperation in coordinating combined logistics support between NAMSAs and the United States. The International Cooperation, Armaments Cooperation Atlantic Directorate representative stated that the Military Departments should determine whether a WSP agreement could support their common logistics support requirements. Although the Military Departments are responsible for incorporating DoD policy for NATO logistics in the planning and programming of logistics support, the USD(AT&L) should also take a role in the process and ensure that the Military Departments know how to incorporate DoD policy for combined logistics support in their planning and programming. The development of procedures to submit common weapon system requirements to the USD(AT&L) Office of International Cooperation for WSP agreement support would alleviate the uncertainty of the Military Departments concerning submission of requirements to NAMSAs.

Joining Weapon System Partnership Agreements. The USD(AT&L) did not develop procedures for joining WSP agreements. The USD(AT&L) Office of International Cooperation is the focal point for the coordination of WSP agreements between the United States and NAMSA. Although the International Cooperation, Armaments Cooperation Atlantic Directorate representative was able to describe the process to join WSP agreements, the process was not documented. The representative stated that it is the responsibility of the Military Departments to request membership to a WSP agreement from NAMSA. However, Army and Navy personnel stated that there was no clear understanding of how to join a WSP agreement. Naval Air Systems Command representatives stated that they were also unaware of whom to contact to join a WSP agreement. Until procedures are formally developed and documented, confusion will continue to exist and may deter the Military Departments from joining WSP agreements.

Using Weapon System Partnership Agreements. The USD(AT&L) did not develop procedures for using WSP agreements. The Army is using a mutual logistics support arrangement to have NAMSA perform work that should be performed using a WSP agreement. Specifically, the Army is using an ACSA implementing arrangement with NAMSA to have helicopter components repaired in Europe. In addition, a review of the USAREUR FY 2001 report on ACSA implementing arrangement transactions showed that transactions made under the WSP agreement for M-60 tanks had been incorrectly included. Because USD(AT&L) had not developed procedures for using WSP agreements, the Military Departments may continue to inappropriately use ACSAs and account for WSP agreement transactions within the \$200 million ACSA ceiling.

Navy personnel stated that NAMSA was not being used because NAMSA had not submitted a bid on any requests for proposal for contractor logistics support. DoD personnel were unaware that NAMSA does not compete or bid for DoD contract awards. Chapter 138, subchapter II, section 2350d, 10 U.S.C., allows NAMSA to contract for logistics support required by the Military Departments through the use of WSP agreements. Therefore, once the United States is a member of a WSP agreement, the Military Departments may submit logistics support requirements directly to NAMSA. The development of procedures to use WSP agreements would assist in identifying the potential benefits of using NAMSA as an alternative source of repair and would also alleviate the confusion of how and when to use NAMSA.

NAMSA Benefits to DoD

The Military Departments will incur surcharges when using existing WSP agreements that the United States is not a member of. In FY 2004, the Army could incur about \$1 million in additional costs for its projected helicopter component maintenance and repair workload. Also, the Navy may experience readiness shortfalls while it awaits high-demand, depot-level repairables for the P-3 Orion requisitioned from Navy sources. In addition, the Military Departments

may not realize other potential benefits from using NAMSA to support their combined logistics support requirements, to include consolidated procurement of supplies, storage, and services.

NAMSA Surcharges. Member nations of an existing WSP agreement apply a surcharge for each maintenance and supply transaction performed for a nonmember nation, in accordance with WSP Committee guidance. In 2001, NAMSA charged the United States approximately \$12,292 in surcharges for helicopter support. The Army is projecting that it will significantly increase its use of NAMSA during FY 2004 to meet the new depot maintenance overhaul standards. Because the United States is not a member of the existing Helicopters WSP Agreement, NAMSA estimates that approximately \$1.2 million⁵ in surcharges could be added to FY 2004 workload transactions. Although USAREUR did not request NAMSA to provide an estimate for the FY 2003 workload, the estimate for the FY 2004 workload was made using the projected FY 2003 workload. If USAREUR decides to use NAMSA for the FY 2003 projected workload, potential monetary benefits would also apply. NAMSA estimated the cost for the United States to join the Helicopters WSP Agreement is between \$180,000 to \$250,000 annually. Therefore, if the United States joined the Helicopters WSP Agreement in FY 2004, the Army could avoid the surcharges to the Army Working Capital Fund of about \$1 million. In addition, the Navy and the Air Force could use the Helicopters WSP Agreement as a secondary source of repair, which could result in greater cost avoidance for DoD.

Component Repair Lead Time. The Navy may experience readiness shortfalls while it awaits high-demand, depot-level repairables for the P-3 Orion requisitioned from Navy sources. Using the C-130 Hercules/P-3 Orion WSP Agreement could reduce the lead time for those repairables. The P-3 engine components used in the Naval Air Station Sigonella proof of concept evaluation were long leadtime items of repair. Those components were sent for repair to a NAMSA contractor and were repaired and returned within 45 days. Naval Air Station Sigonella estimated a wait of up to 2 years to obtain replacement parts required to repair the components through the Navy wholesale supply system. As a result of the study, Naval Air Station Sigonella identified the potential to recognize reduced lead times on those components. The Navy could potentially reduce repair time for P-3 Orion repairables if it fully used the C-130 Hercules/P-3 Orion Weapon System Partnership Agreement.

Benefits of Combined Logistics Support. The Military Departments may not realize other potential benefits from using NAMSA to support their combined logistics support requirements. Combined logistics support can include consolidated procurement of supplies, storage, and services. NAMSA operates storage facilities in Taranto, Italy, that the Military Departments could use to pre-position weapon systems or equipment for contingency support. In addition, DoD may experience delays while awaiting high-demand supplies that may be

⁵The estimated \$1.2 million in surcharges was computed by WSP agreement member nations using the forecast of the WSP agreement member workload for 2002. Based on an agreed-upon formula, a surcharge of 695 Euro for each supply requisition and a surcharge of 2,085 Euro for each maintenance requisition is applied to nonmember requests. As of June 2002, one Euro was equal to about .9778 U.S. dollars.

readily available from NATO nations. Using NAMSA, the Military Departments may be able to locate supplies from other NATO nations within a reduced time frame from that in the DoD supply systems. Through NAMSA, weapon systems required for operational commitments can be repaired in theater and not necessitate the return of weapon system components to the United States for repair. Weapon system components requiring maintenance may also be repaired in theater and returned directly to the unit rather than being returned to the Military Department wholesale supply inventory. Work performed in theater can also result in reduced transportation time and cost.

Conclusion

The 2001 Annual Report to the President and the Congress, commonly referred to as the Annual Defense Review 2001, reports that DoD is transforming its mass logistics system into an agile and reliable system that will deliver logistics on demand. DoD has developed a long-term logistics reform strategic plan and has begun the process of implementing its strategies. The Military Departments are also developing and implementing logistics reform strategies, to include innovative maintenance and supply concepts. For example, the Army is implementing the National Maintenance Program as part of its Single Stock Fund concept. The National Maintenance Program outlines the Army's strategy to move toward a centrally coordinated and controlled repair-based logistics system. In addition, cooperation with NATO allies in improving the interoperability of weapon systems and logistics will also yield efficiencies in DoD operations. Those efficiencies could reduce sustainment costs and improve force protection while promoting multinational cooperation. Because the Military Departments are transforming their logistics concepts, the Military Departments should ensure that NAMSA is being considered as an alternative source of repair in their logistics reform.

Management Comments on the Finding and Audit Response

Management Comments. The USD(AT&L) provided comments on the finding to address responsible offices within DoD and the use of combined logistics support through WSP agreements. The USD(AT&L) stated that the Defense Security Cooperation Agency provides DoD support to NAMSA through foreign military sales. The Defense Security Cooperation Agency works with each Military Department's security assistance staff that, in turn, coordinates with its respective components for participation in WSP agreements. The USD(AT&L) stated that procedures exist for the use of NAMSA and are applied routinely. (See the USD(AT&L) comments in the Management Comments section of this report for the documented procedures.) The USD(AT&L) also requested that the Inspector General expound on whether using NAMSA for logistics support through the six WSP agreements that DoD is a member of is achieving best value.

Audit Response. The Defense Security Cooperation Agency and security assistance staffs of the Military Departments coordinate participation with their

respective components for DoD support to NAMSAs through foreign military sales, as the USD(AT&L) stated. However, the focus of this report is DoD use of NAMSAs to support DoD logistical requirements and the lack of procedures for doing so. NAMSAs support to DoD logistical requirements would be initiated by the logistics community of each Military Department and not from the Defense Security Cooperation Agency or from the Military Departments' security assistance staffs. Seven of the eight USD(AT&L) procedures included in the Management Comments section describe the process for DoD to provide support to NAMSAs through foreign military sales, which normally is initiated by NAMSAs. Although the eighth procedure states that DoD may also receive support from NAMSAs by identifying logistics requirements through the Office of the USD(AT&L), it does not document how the Military Departments should initiate and identify those requirements. Although we did not do a thorough review of the six WSP agreements that the United States is a member of, we found no evidence indicating that DoD was not achieving best value when using NAMSAs to support DoD logistics requirements.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics revise DoD Directive 2010.8, "Department of Defense Policy for NATO Logistics," to:

- a. Establish procedures for the Military Departments to submit common weapon system requirements to the Under Secretary of Defense for Acquisition, Technology, and Logistics for consideration of logistics support.**
- b. Establish procedures to coordinate common DoD requirements for consideration of the North Atlantic Treaty Organization Maintenance and Supply Agency as a viable source of repair for combined logistics support.**
- c. Establish procedures for the Military Departments to join and use weapon system partnership agreements.**

Under Secretary of Defense for Acquisition, Technology, and Logistics Comments. The USD(AT&L) nonconcurred, stating that DoD directives are policy documents and are not designed to include procedures. The USD(AT&L) stated that procedures were in place and were routinely applied. However, the Director, International Cooperation will reiterate the procedures to the responsible DoD offices.

Audit Response. USD(AT&L) comments are partially responsive. The USD(AT&L) states that procedures are in place and that the Director, International Cooperation will reiterate those procedures. We agree that procedures are in place for DoD support to NAMSAs through the foreign military sales program. However, we disagree that procedures are in place for the use of NAMSAs to support DoD logistics requirements. Those logistics requirements are initiated by the Military Department logistics communities, not by NAMSAs. As

discussed in the report, guidance that defines the responsibilities and procedures to use NAMSAs does not exist. We recognize that updating DoD Directive 2010.8 will require time and resource requirements; therefore should USD(AT&L) provide an alternative method to revising the Directive that establishes procedures for the use of NAMSAs to support DoD logistics requirements, we would be amenable to that alternative. However, in the interim, guidance that defines the responsibilities and detailed processes for submitting and coordinating common DoD requirements and procedures for joining and using WSP agreements should be established until final guidance is published or an alternative solution is found. We request that the USD(AT&L) reconsider his position on the recommendation and provide comments on the final report.

2. We recommend that the Commander, Army Materiel Command submit requirements to the Under Secretary of Defense for Acquisition, Technology, and Logistics for formal consideration of logistics support through the Helicopters Weapon System Partnership Agreement.

Army Materiel Command Comments. The Commander, Army Materiel Command nonconcurred, stating that the Army should submit the requirements. The Army Materiel Command provides support to the combatant commanders to maintain readiness. The Commander stated that the Army's use of NAMSAs had been limited and a cost-benefit analysis should be performed to determine whether NAMSAs are cost-effective. The Army Materiel Command also stated that the report did not address cost sharing for using NAMSAs.

Audit Response. The Army comments are not responsive. We agree that DoD use of NAMSAs should be coordinated through the Army. Although the aviation assets are assigned to USAREUR, the Army component of the U.S. European Command, the Army Materiel Command is responsible for funding and workload maintenance and repair requirements for those assets, through the National Maintenance Program. We also agree that the Army should perform a cost-benefit analysis to determine whether NAMSAs are cost-effective. The estimated cost for the United States to be a member of the WSP agreement is between \$180,000 to \$250,000 annually, as stated in this report. We request that the Army reconsider its position on the recommendation and provide comments on the final report.

Additional Comments. Although not required to comment, the Army Security Assistance Command and USAREUR provided the following comments. For the full text of the comments, see the Management Comments section of the report.

Army Security Assistance Command Comments. The Chief, Country Program Management Division, Europe Directorate stated that the recommendation to the Army Materiel Command falls under the cognizance of the Army Security Assistance Command and stated that the command will coordinate with the Army Aviation and Missile Command to reexamine joining the Helicopters WSP Agreement. In addition, the Army Security Assistance Command will review USAREUR use of ACSAs instead of the Helicopters WSP Agreement for helicopter component repairs.

Audit Response. We disagree with the Army Security Assistance Command that the recommendation falls under its cognizance. The Army Materiel Command is responsible for funding and workload maintenance and repair requirements for those assets, through the National Maintenance Program. We agree that there should be a review of the ACSAs and WSP agreements.

U.S. Army, Europe Comments. USAREUR agreed that the use of NAMSA for combined logistics support could be improved.

3. We recommend that the Commander, Naval Air Systems Command submit requirements to the Under Secretary of Defense for Acquisition, Technology, and Logistics for formal consideration of logistics support through the C-130 Hercules/P-3 Orion Weapon System Partnership Agreement.

Navy Comments. The Acting Assistant Secretary of the Navy (Research, Development and Acquisition) concurred with the recommendation to use NAMSA, upon the establishment of procedures, when NAMSA is cost-effective and does not negatively impact readiness.

Appendix A. Scope and Methodology

During the survey phase of our audit, we reviewed DoD oversight of WSP agreements that DoD supports through the foreign military sales process. In addition, we reviewed DoD protection of sensitive data from unauthorized disclosure. During the audit phase, we reviewed the oversight of WSP agreements that DoD uses to receive combined logistics support through NAMSA. We evaluated the process for allocating funds to NAMSA. We also reviewed the DoD procurement practices as they apply to NAMSA and the DoD processes used to determine which weapon systems would be supported through NAMSA.

We reviewed legislation and evaluated whether the DoD and Military Department guidance for WSP agreements issued from 1986 through 2001 ensured that the Military Departments provided to NAMSA efficient and effective support through the use of foreign military sales cases. We reviewed 10 U.S.C. 2304; 10 U.S.C. 2460-2466; DoD Directive 5230.11, "Disclosure of Classified Military Information to Military Governments and International Organizations," June 16, 1992; Army Regulation 380-10, "Security: Technology Transfer, Disclosure of Information and Contacts with Foreign Representatives," February 15, 2001; Secretary of the Navy Instruction 5510.31C, "Policy and Procedures for Control of Foreign Disclosure in the Department of the Navy," March 15, 2000; and Air Force Manual 16-101, "International Affairs and Security Assistance Management," September 1, 1995, and selectively examined Military Department foreign military sales cases with NAMSA to ensure the protection of sensitive data from unauthorized disclosure. We reviewed 33 NAMSA foreign military sales cases, valued at \$69.5 million.

For DoD use, procurement, and allocation of funds to NAMSA, we reviewed and evaluated 10 U.S.C. 2341-2350; the Federal Acquisition Regulation; DoD Directive 2010.8; DoD Directive 2010.9; DoD Directive 4151.18, "Maintenance of Military Materiel," August 12, 1992; DoD Directive 5000.1, "The Defense Acquisition System," October 23, 2000; U.S. European Command Directive Number 60-8, "Logistic Support Using Acquisition Cross-Servicing Agreements (ACSA)," September 19, 2001; DoD Financial Management Regulations; and the "Basic Agreement between the NATO Maintenance and Supply Organization (NAMSO) and the U.S. European Command (USEUCOM) on Mutual Support," December 10, 1996.

We reviewed the following 14 WSP agreements.

- Advanced Medium Range Air-to-Air Missiles (AMRAAM)
- Ammunition
- C-130 Hercules/P-3 Orion
- CL-289 Drone
- Homing All the Way Killer (HAWK)

-
- Helicopters
 - M-60 Tank/M-110 Self-Propelled Howitzer
 - M-113 Armored Personnel Carrier
 - MK46 Torpedo
 - Multiple Launch Rocket System (MLRS)
 - Nike
 - Patriot
 - Stinger
 - Tube-Launched, Optically-Tracked, Wire-Guided (TOW) Missiles

See Appendix C for a complete list of established NAMSA WSP agreements and which Military Department supports or is a member of which agreements. We reviewed the following eight ACSA implementing arrangements.

- Implementing Arrangement EC-NM-01 between DoD and NAMSA concerning Mutual Logistics Support
- Implementing Arrangement AR-NM-04 between NAMSA and USAREUR concerning Logistics Supply, Support, and Services for the Multiple Launch Rocket System (MLRS)
- Implementing Arrangement AR-NM-06 between NAMSA and USAREUR on Mutual Emergency Support for the Patriot Weapon System
- Implementing Arrangement AR-NM-07 between NAMSA and USAREUR concerning the Exchange of Patriot Weapon System Logistics Support
- Implementing Arrangement AR-NM-10 between NAMSA and USAREUR concerning Ammunition Demilitarization
- Implementing Arrangement AR-NM-09 between NAMSA and USAREUR concerning LANCE Weapon System Logistics Support
- Implementing Arrangement AR-NM-15 between NAMSA and USAREUR concerning Transportation, Receipt, Repair, Modification, Testing, and Return of Defense Business Operations Fund (DBOF) Items-General Support Maintenance Program for Use With Different Systems
- Implementing Arrangement AR-NM-21 between NAMSA and USAREUR concerning the Improved Tow Acquisition System (ITAS)

We analyzed the processes related to DoD support to and from NAMSA by:

- conducting interviews at USD(AT&L) offices of the Deputy Under Secretary of Defense (Logistics and Materiel Readiness) and International Cooperation, Armaments Cooperation Atlantic Directorate; the Office of the Under Secretary of Defense for Policy; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; the General Counsel of the Department of Defense; and the Joint Staff for oversight and policy for combined logistics;
- conducting interviews at the Defense Security Cooperation Agency; the Army Security Assistance Command; the Navy International Programs Office; the Office of the Deputy Under Secretary of the Air Force (International Affairs); the Army Materiel Command; the Air Force Materiel Command; and Warner Robins Air Logistics Center for use of NAMSA, adequate oversight of WSP agreements, and ensuring that sensitive data was protected;
- visiting the Army Aviation and Missile Command; the Army Tank-automotive and Armaments Command; and the Naval Air Systems Command to evaluate the support DoD provides to NAMSA and potential NAMSA use to determine the processes to receive support from NAMSA;
- visiting the U.S. Mission to NATO and NAMSA to determine support to and from DoD;
- visiting the Defense Finance and Accounting Service, Europe to evaluate the processes used to allocate funds;
- visiting the U.S. European Command; USAREUR headquarters; U.S. Naval Forces Europe headquarters; U.S. Air Forces in Europe headquarters; the Army 21st Theater Support Command; Naval Air Station Sigonella, Italy; Naval Inventory Control Point Philadelphia; the Army Regional Contracting Center, Wiesbaden, Germany; and the Navy Regional Contracting Center, Naples, Italy, to determine procurement practices and processes used to allocate funds; and
- identifying WSP agreements that the Military Departments may benefit from joining or using and the potential for maximizing combined logistics support arrangements.

We performed this audit from September 2001 through July 2002 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Inventory Management high-risk area.

Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of the Military Departments’ management controls related to DoD support to and from NAMSAs. Specifically, we reviewed the Military Departments’ evaluations of the logistics controls for the maintenance and supply support of DoD weapon systems. In addition, we reviewed the management controls over support provided to NAMSAs through the foreign military sales process. Because we did not identify a material weakness, we did not assess management’s self-evaluation.

Adequacy of Management Controls. The Military Departments’ management controls were adequate in that we identified no material management control weaknesses.

Appendix B. Prior Coverage

During the last 5 years, the General Accounting Office and the Inspector General of the Department of Defense have issued the following reports discussing the 50-percent rule. Unrestricted General Accounting Office reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted Inspector General of the Department of Defense reports can be accessed at <http://www.dodig.osd.mil/audit/reports/>.

General Accounting Office

General Accounting Office Report No. GAO-02-95, "Depot Maintenance: Management Attention Required to Further Improve Workload Allocation Data," November 9, 2001

General Accounting Office Report No. GAO/NSIAD-00-69, "Depot Maintenance: Future Year Estimates of Public and Private Workloads Are Likely to Change," March 1, 2000

General Accounting Office Report No. GAO/NSIAD-99-154, "Depot Maintenance: Workload Allocation Reporting Improved, but Lingering Problems Remain," July 13, 1999

General Accounting Office Report No. GAO/T-NSIAD-98-175, "Defense Depot Maintenance: Public and Private Sector Workload Distribution Reporting Can Be Further Improved," July 23, 1998

General Accounting Office Report No. GAO/NSIAD-98-41, "Defense Depot Maintenance: Information on Public and Private Sector Workload Allocations," January 20, 1998

Inspector General of the Department of Defense (IG DoD)

IG DoD Report No. D-2001-033, "Government Performance and Results Act-Unfunded Depot Maintenance Requirements," January 12, 2001

IG DoD Report No. 99-192, "Depot Maintenance Capacity and Utilization Measurement," June 23, 1999

Army

Army Audit Agency Audit Report No. AA 01-360, "Depot Maintenance Workload Reporting FY 00 and Outyears," July 12, 2001

Army Audit Agency Audit Report No. AA 00-363, "Depot Maintenance Workload Reporting FY 00-FY 04," September 11, 2000

Army Audit Agency Audit Report No. AA 00-362, "Depot Maintenance Workload Reporting FY 99," August 31, 2000

Army Audit Agency Audit Report No. AA 98-202, "Depot-Level Maintenance Workload Reporting," June 1, 1998

Navy

Naval Audit Service Report No. N2000-0035, "Allocation of Depot Maintenance Workload Between Public and Private Sectors," August 10, 2000

Appendix C. Weapon System Partnership Agreements

Two or more NATO nations that use the same weapon system can establish a WSP agreement to support the system. NAMSAs provide logistics support through 19 WSP agreements. DoD is a member of 6 WSP agreements and provides support for 13, as shown in the following table.

NAMSA Weapon System Partnership Agreements

<u>WSP Agreement</u>	<u>DoD Participation</u>	
	<u>Member</u>	<u>Support</u>
Air defense		
CL-289 Drone	—	—
SSSB-DPDS* Surveillance System	—	—
Artillery & tracked vehicles		
Ammunition	Army	—
M-60 Tank/M-110 Self-Propelled Howitzer	Army	Army
M-109 Self-Propelled Howitzer	—	Army
M-113 Armored Personnel Carrier	—	Army
Towed Artillery	—	—
Aviation		
C-130 Hercules/P-3 Orion	Air Force	Air Force
Helicopters	—	Army
Naval		
MK46 Torpedo	—	Navy
Rockets and missiles		
AIM-120 Advanced Medium Range		
Air-to-Air Missiles (AMRAAM)	—	Air Force
High-Speed Anti-Radiation Missiles (HARM)	—	—
Homing All the Way Killer (HAWK)	—	Army
Maverick	—	—
Multiple Launch Rocket System (MLRS)	Army	Army
Nike	—	Army
Patriot	Army	Army
Stinger	—	Army
Tube-Launched, Optically-Tracked, Wire-Guided (TOW) Missiles	Army	Army

*Ship-Shore Ship-Buffer Data Processing Display System.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Deputy Under Secretary of Defense (Logistics and Materiel Readiness)
Director, International Cooperation
Director, Armaments Cooperation Atlantic Directorate
Under Secretary of Defense for Policy
Assistant Secretary of Defense (International Security Affairs)
Director, Defense Security Cooperation Agency
Defense Advisor, U.S. Mission to NATO
Director, Infrastructure, Logistics and Civil Emergency Planning Division
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
General Counsel of the Department of Defense

Department of the Army

Commander, Army Materiel Command
Commander, Army Security Assistance Command
Commander, Aviation and Missile Command
Commander, Tank-automotive and Armaments Command
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Naval Inspector General
Commander, Naval Air Systems Command
Commander, Naval Supply Systems Command
Commander, Naval Inventory Control Point Philadelphia
Auditor General, Department of the Navy
Commander, Naval Air Station Sigonella

Department of the Air Force

Commander, Air Force Materiel Command
Commander, Warner Robins Air Logistics Center
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Unified Commands

Commander, U.S. European Command
Commander, U.S. Army, Europe
Commander, U.S. Naval Forces Europe
Commander, U.S. Air Forces in Europe

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Under Secretary of Defense for Acquisition, Technology, and Logistics Comments



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

15 AUG 2002

MEMORANDUM FOR DIRECTOR, READINESS AND LOGISTICS SUPPORT DIRECTORATE, DOD IG

SUBJECT: Report on DoD Use of the North Atlantic Treaty Organization Maintenance
and Supply Agency (NAMSA)

We appreciate the opportunity to comment on the draft report on DoD's Use of the NATO Maintenance and Supply Agency. NAMSA provides important services in support of Department of Defense and allied nation's logistic requirements. Where it offers best value it should be considered by the Military Departments in accommodating logistics requirements along with organic and contractor support options.

The report recommends that DoDD 2010.8 be revised to include *procedures* for entering into and participating in NAMSA Weapon System Partnerships. DoD Directives, which are signed uniquely by the Secretary or Deputy Secretary of Defense, are broad policy documents. They are not designed for inclusion of detailed procedures. In addition, and as noted in the attached detailed comments on the report, procedures are in place and are applied in a routine fashion. The Director, International Cooperation, will reiterate these procedures by disseminating them to the responsible International Cooperation/ Security Assistance offices in DoD upon issuance of the final report.



E. C. Aldridge, Jr.

Attachments:
As stated



Detailed Comments on Draft Inspector General Report on DoD Use of the North Atlantic Treaty Organization Maintenance and Supply Agency

Responsible Officer within DoD (page 2)

As noted in the report, the primary responsible offices are the USMISSION to NATO in Brussels and USD(AT&L). Individuals in these offices are designated respectively as the Board of Director (BOD) member and the Deputy BOD member to the NATO Maintenance and Supply Organization. Since DoD support to NAMSA occurs through Foreign Military Sales, the primary responsible office providing support to USD(AT&L) is the Defense Security Cooperation Agency (DSCA). They in turn work with security assistance staffs in the Military Departments. These staffs work within their component to coordinate their respective participation in Weapon System Partnerships (WSPs). All WSP Agreements are coordinated through this chain of command. Where appropriate, DSCA also coordinates with the Departments of State and Commerce. Other responsible offices are the International/Security Assistance Secretariat staffs in the Military Departments.

DoD Use of Combined Logistics Support (page 5)

The draft report notes that NAMSA use could be maximized if procedures were delineated for the Military Departments to enter into and participate in WSPs. Standard procedures do in fact exist and are applied on a routine basis. The procedures have been documented for inclusion in this response and are as noted at the appendix to these comments.

As an aside and for general reference purposes it should be noted that the US BOD member and his Deputy have responsibilities beyond their involvement in WSPs. These include coordinating DoD position on NAMSA policy issues, approval of budgets, making periodic reports to the North Atlantic Council, approving NAMSA's Organization and Establishment, etc.

Maximizing the Use of WSP Agreements (page 6)

The draft report notes that the Army *could* benefit by joining the Helicopter WSPs. It goes on to note the potential benefits for the Navy if it joined the C-130/P-3 WSP. It would be useful if the IG, in their final report, would share their findings regarding DoD experience with the current WSPs. DoD is a member of six WSPs and being able to validate that best value is being achieved by the use of NAMSA for these systems would lend support to the IG recommendations to the Military Departments on making further use of NAMSA's capabilities. This is especially important in that, as noted elsewhere in the IG report, NAMSA does not bid or compete for DoD contracts.

Revised

Submission of Requirements (page 9 line 4))

The draft IG report correctly notes that DoDD 2010.8 states the need to rely maximally on NATO combined logistics support arrangements. The Directive also notes that this should be accomplished where *practicable* and unless doing so would be *disadvantageous* to the United States. This additional language should be included in the IG report noting that this translates into ensuring best value.

Revised

Recommendations (page 12)

Non concur.

The report recommends that USD(AT&L) revise DoDD 2010.8 to include *procedures* to enter into and participate in WSPs. DoD Directives are broad policy documents. They are not designed for inclusion of detailed procedures. In addition, and as indicated above, the procedures recommended are in place and are applied in a routine fashion. A copy of these procedures is included in the appendix to these comments. Director International Cooperation will reiterate the procedures to the responsible International Cooperation/Security Assistance offices in DoD. This will be accomplished within 30 days of issuance of the final IG report.

Page 13

**Appendix on Procedures for Entering into and Participating in a
NAMSAs Weapon System Partnership (WSP)**

1. NAMSAs marketing office conducts research to determine potential opportunities for combined logistic support. Requirement is that two or more nations have interest in forming a WSP. Input to the marketing effort includes results of visits to DoD activities conducted by the NAMSAs General Manager and his Deputy.
2. NAMSAs drafts a proposed WSP Agreement and an associated Logistics Support Agreement tailored to meet the nations' requirements.
3. Draft WSP Agreement and associated Logistics Agreement are submitted to the NAMSO Board of Directors (BOD) under silence procedure. The silence procedure requires a response in a specified time period.
4. Upon receipt by the US Deputy BOD member in OUSD(AT&L), these draft agreements are then tasked out to DSCA. The role of DSCA is key in that the proposed logistics support to allied nations is conducted under FMS cases.
5. DSCA solicits comments and coordination from the Military Department(s) and from the Departments of State and Commerce, as appropriate. As part of this coordination the Military Department determines if it wants to participate in the WSP and if so under what circumstances.
6. The DSCA coordination and comments are submitted back to the US Deputy BOD member in OUSD(AT&L).
7. The Deputy Board Member then, in consultation with the US BOD member in Brussels and the United States Representative assigned to NAMSAs in Luxembourg, responds to NAMSAs on these agreements. The responses are either concurrence, non-concurrence or a request that language in the draft agreements be modified to accommodate DoD requirements.
8. While the process normally originates at NAMSAs it can also be initiated by one of the DoD responsible offices identifying specific logistics requirements to the US Deputy BOD member in OUSD(AT&L). The US Deputy BOD Member then works to consolidate any additional requirements and to facilitate the mechanics of entering into a WSP. Alternatively where NAMSAs is unable to identify two nations requiring support through a WSP, support can then be provided outside of a WSP through random brokerage.

Department of the Army Comments



REPLY TO
ATTENTION OF

AMCIR-A (36-2A)

DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
5001 EISENHOWER AVENUE, ALEXANDRIA, VA 22333 - 0001

20 August 2002

MEMORANDUM FOR MR. DONALD C. CRESS, PROGRAM DIRECTOR, STRATEGIC
ENGAGEMENT OFFICE, U.S. ARMY AUDIT AGENCY, 3101 PARK CENTER DRIVE,
ALEXANDRIA VA 22302-1596

SUBJECT: DODIG Draft Report, DoD Use of the North Atlantic Treaty Organization
Maintenance and Supply Agency (NAMSA), Project D2002-LG-0001 (AMC No. D0204)

1. We are enclosing our position on subject report LAW AR 36-2.
2. Point of contact for this action is Ms. Jennifer R. Baxter, (703) 617-0530, e-mail -baxterj@hqamc.army.mil.

FOR THE COMMANDER:

Encl
as

For *[Signature]* *Col GS Asst Chief of Staff*
RICHARD A. HACK
Major General, USA
Chief of Staff

COMMAND REPLY FOR
DoDIG DRAFT REPORT – DOD USE OF THE NORTH ATLANTIC TREATY
ORGANIZATION MAINTENANCE AND SUPPLY AGENCY
(DoDIG Project No. D2000LG-0001)

FINDING A – DoD USE OF COMBINED LOGISTICS SUPPORT: DoD could improve its use of NAMSAs for combined logistics support and reduce costs. Specifically, the Army, which has 308 helicopters in the European theater, did not join the Helicopters WSP Agreement and the Navy did not maximize its use of the C-130 Hercules/P-3 Orion WSP Agreement. DoD did not maximize use of NAMSAs for combined logistics support because USD (AT&L) did not develop procedures:

- For the military departments to submit common weapon system requirements to DoD for consideration of logistics support through a WSP agreement,
- To coordinate and submit other common DoD requirements for consideration of NAMSAs as a viable alternative source of repair for combined logistics support, and
- To join and use a WSP agreement.

As a result, the Military Departments will incur surcharges when using existing WSP agreements that the United States is not a member of. In FY 2004, the Army could incur about \$1 million in additional costs for its projected helicopter component maintenance and repair workload. Also, the Navy may experience readiness shortfalls while it awaits high-demand, depot-level repairables for the P-3 Orion requisitioned from Navy sources. In addition, the Military Departments may not realize other potential benefits from using NAMSAs for their combined logistics support requirements, to include consolidated procurement of supplies, storage, and services.

RECOMMENDATION: We recommend that the Commander, Army Material Command (AMC) submit requirements to the Under Secretary of Defense for Acquisition, Technology, and Logistics for formal consideration of logistics support through the Helicopters Weapon System Partnership Agreement.

Action Taken: Non-concur. The appropriate agency for submitting these requirements is the Department of the Army. The Army's aviation assets are assigned to the combatant commanders and AMC's role is to provide support to enable the combatant commanders to maintain fleet readiness.

Additional Facts: AMC's use of NAMSAs aviation support to date has been a one-time repair of T-700 turbine engine cold sections to solve an immediate readiness problem. While the report states the Army could incur an additional \$1 million charge for obtaining support in FY 04, the report does not address "Each member nation has an agreed upon cost sharing formula for administrative and operational expenditures." A cost benefit analysis should be accomplished to determine if NAMSAs WSP support is cost effective.



DEPARTMENT OF THE ARMY
U.S. ARMY SECURITY ASSISTANCE COMMAND
5701 21ST STREET
FORT BELVOIR, VA 22060-5840

REPLY TO
ATTENTION OF

AMSAC-ME-CP

13 Sep 02

MEMORANDUM FOR DIRECTOR, READINESS AND LOGISTICS SUPPORT
DIRECTORATE, INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, 400 ARMY
NAVY DRIVE, ARLINGTON, VA 22202-4704

SUBJECT: Report (Draft) on Department of Defense Use of the
North Atlantic Treaty Organization (NATO) Maintenance and Supply
Agency (NAMSA)

1. Reference Proposed Report (Draft), DoD Use of the North Atlantic Treaty Organization Maintenance and Supply Agency, Project No. D2002LG-0001, 29 Jul 02.
2. Recommendation two of the subject draft report stated that the Army Materiel Command submit requirements to the Under Secretary of Defense for Acquisition, Technology and Logistics (USD AT&L) for formal consideration of logistics support through the Helicopter Weapon System Partnership (WSP) Agreement. This type of recommendation falls more specifically under the cognizance of the U.S. Army Security Assistance Command (USASAC), who has taken the recommendation for action.
3. USASAC is providing an interim nonconcurrency to the draft recommendation based upon the following:
 - a. Further Determination of Best Value to the U.S. Army by Using NAMSA. Page five of the draft report states, *Specifically the Army, which has 308 helicopters in the European theater, did not join the Helicopter WSP Agreement.* Factors that led to the initial decision not to join the WSP must be reexamined to determine if best value can be achieved via WSP membership. Coordination with the Aviation & Missile Command will be required for such a determination to be made. Findings will be provided to the Inspector General's Office no later than 31 Dec 02.
 - b. Alleged Improper Use of an Acquisition Cross-Servicing Agreement (ACSA) for Helicopter Component Repairs. Page 10 of the draft report states, *The Army (i.e. U.S. Army Europe) is using a mutual logistics support arrangement to have NAMSA perform work that should be performed using a WSP agreement.*

AMSAC-ME-CP

SUBJECT: Report (Draft) on Department of Defense Use of the North Atlantic Treaty Organization (NATO) Maintenance and Supply Agency (NAMSA)

USASAC will explore these allegations against U.S. Army Europe, and present its findings and course of action to the Inspector General's Office no later than 31 Dec 02.

4. Should the results from any of the aforementioned issues warrant the joining of the NAMSA helicopter WSP, actions toward that end will be taken into consideration by the cognizant parties and the request forwarded in accordance with procedures established by the USD(AT&L).

5. The U.S. Army Security Assistance Command point of contact is Mr. Shawn E. Costley, 703-806-2245.

6. USASAC -- The Army's Face to the World.


WILLIAM C. KRUEGER
Chief, CPM Division
Europe Directorate



DEPARTMENT OF THE ARMY
HEADQUARTERS, UNITED STATES ARMY, EUROPE, AND SEVENTH ARMY
INTERNAL REVIEW AND AUDIT COMPLIANCE OFFICE
UNIT 29351
APO AE 09014

AEAGX-IA

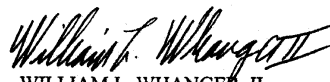
13 Sep 02

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, 400 ARMY
NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Command Reply, DODIG Draft of a Proposed Report, DOD Use of the North
Atlantic Treaty Organization Maintenance and Supply Agency

1. Headquarters, U.S. Army, Europe, has reviewed the subject draft report and generally concurs with the report's findings and recommendations. We agree that the use of the NATO Maintenance and Supply Agency for combined logistics support could be improved. While no specific recommendations were addressed to USAREUR, we offer two editorial comments. Our comments are provided at Enclosure.
2. We appreciate the opportunity to review the draft report and to provide comments for consideration and inclusion in the final report.
3. The USAREUR point of contact for this action is Mr. Eric Tichay. He can be reached at DSN 370-7589, or via commercial from CONUS at 011-49-6221-577589, or via electronic mail at: eric.tichay@hq.hqusareur.army.mil.

Encl


WILLIAM L. WHANGER, II
Chief, Internal Review and
Audit Compliance Office

COMMAND REPLY
DODIG DRAFT REPORT
DODIG Audit of the DOD Support to the North Atlantic Treaty
Organization Maintenance and Supply Agency (Project No. D2002LG-0001)

The subject of the DODIG audit was to evaluate DOD's role in supporting the North Atlantic Treaty Organization Maintenance and Supply Agency (NAMSA). Specifically, DODIG evaluated: (1) whether DOD is providing adequate oversight of weapon system partnership agreements, (2) whether DOD is ensuring sensitive data is protected, (3) the DOD process used to allocate funds to NAMSA, (4) DOD procurement practices as they apply to NAMSA, and (5) DOD processes used to determine what systems or equipment will be supported through NAMSA. Overall, DODIG concluded that DOD could improve its use of the NATO Maintenance and Supply Agency for combined logistics support and reduce costs. The draft report contained three recommendations, one each addressed to the USD (AT&L), AMC, and Naval Air Systems Command. The report does not contain recommendations or suggested actions for USAREUR.

Office of the Deputy Chief of Staff, Logistics reviewed the draft report and agreed with the report's findings and recommendations. While no specific recommendations were addressed to USAREUR, the following two editorial comments are offered for DODIG's consideration.

- Page 16, Paragraph 1, Line 4. Suggested change "General Maintenance Support Program" to General Support Maintenance Program"
- Page 20, Subtitle: Rockets and missiles, Line 6. Suggested change "MRLS" to MLRS"

Enclosure

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

AUG 22 2002

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subj: RESPONSE TO DEPARTMENT OF DEFENSE INSPECTOR GENERAL,
DRAFT PROPOSED REPORT PROJECT NO. D2002LG-0001

Ref: (a) Draft Proposed Report, "DoD Use of the North Atlantic
Treaty Organization Maintenance and Supply Agency",
Project No. D2002LG-0001 of July 29, 2002

Reference (a) recommended that the Commander, Naval Air
Systems Command submit requirements to the Under Secretary of
Defense for Acquisition, Technology, and Logistics for formal
consideration of logistics support through the C-130 Hercules/
P-3 Orion Weapon System Partnership Agreement.

After review by both the Naval Air Systems Command, and the
Naval Supply Systems Command, concur with the recommendation to
use the NATO Maintenance and Supply Agency, when it is cost
effective, it does not have a negative effect on readiness and
upon the establishment of procedures for usage and requirements
submission by the Under Secretary of Defense Acquisition,
Technology and Logistics.

A handwritten signature in cursive script, reading "Paul A. Schneider".

Paul A. Schneider
Assistant Secretary of the Navy
(Research, Development and
Acquisition)
(Acting)

Team Members

The Readiness and Logistics Support Directorate, Office of the Assistant Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

Shelton R. Young
Evelyn R. Klemstine
A. Dahnelle Alexander
Frank J. Kelly
Christine M. McIsaac
Captain Gregory W. Lewis, U.S. Marine Corps
Elizabeth N. Shifflett